



LOUISIANA DEPARTMENT OF INSURANCE
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CERTIFIED MAIL
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CERTIFIED RECEIPT NUMBER 70041160000329589463

May 10, 2007

Mr. Brian William MacLean, CEO and President
The Standard Fire Insurance Company
One Tower Square
Hartford, CT 06183-6014

Re: Market Conduct Examination – Louisiana Operations Only
The Standard Fire Insurance Company
One Tower Square
Hartford, CT 06183-6014
NAIC #: 19070
Our File #: MCD-06-006

Dear Mr. MacLean:

Enclosed is a copy of the adopted Examination Report of your Company. This report is now a public document.

Should you have any questions, please feel free to contact me at (225) 342-9173.

Sincerely,

A handwritten signature in cursive script that reads "Larry Hawkins".

Larry Hawkins
Director, Market Conduct Division
Office of Financial Solvency

LH: me

Enclosure

CC: Joseph Wiest, Director of Market Conduct Regulatory Compliance & Market Conduct
Travelers
One Tower Square, 5GS
Hartford, CT 06183
Certified Receipt #: 70041160000329589470

REPORT OF EXAMINATION
OF THE
MARKET CONDUCT AFFAIRS
OF
THE STANDARD FIRE INSURANCE COMPANY

HARTFORD, CONNECTICUT

AS OF

April 30, 2006

NAIC CODE 19070

NAIC ETS EXAM NO. LA071-M51

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December 27, 2006

Honorable James J. Donelon
Commissioner of Insurance
P O Box 94214
Baton Rouge, Louisiana 70804-9214

Sir:

Pursuant to statutory provisions and in compliance with your instructions, a limited market conduct examination has been made of the affairs of

THE STANDARD FIRE INSURANCE COMPANY
ONE TOWER SQUARE
HARTFORD, CONNECTICUT 06183-6014

as of April 30, 2006 and the report of examination is herewith submitted.

FOREWORD

A target market conduct examination was performed of the activities of The Standard Fire Insurance Company from August 28, 2005 through April 30, 2006. The examination was performed by test and all tests applied during the examination are included in this report.

PURPOSE AND SCOPE OF MARKET CONDUCT EXAMINATION

In accordance with **LRS 22:1301 et. seq.**, the market conduct examination of The Standard Fire Insurance Company, hereinafter referred to as ("Company"), was a limited target market conduct examination authorized by the Louisiana Department of Insurance ("Department") to examine the handling of claims resulting from Hurricanes Katrina and Rita.

The purpose of this examination was to review compliance by the Company with Louisiana Insurance Laws, Regulations, Directives and the National Association of Insurance Commissioners ("NAIC") Guidelines. The NAIC Guidelines set the standards of conduct for a property and casualty insurer and promote a program of fair treatment of policyholders. Portions of the *NAIC Market Conduct Examiner's Handbook, Volume I* were used as a measure of compliance.

The ACL Program, a data manipulation program, provided by the Louisiana Department of Insurance was utilized in this examination. Samplings were utilized to test the Company's records and procedures. The ACL Program was used to automatically generate a random sampling of claims records. "Random" is a theoretical concept

meaning that all items in a population or file (before selection) have an equal chance of appearing in the sampling.

Generally, a random or systematic sampling size of sixty (60) records will be selected for review. A minimum confidence level of ninety-five percent (95%) with a maximum error rate of five percent (5%) will be used for all samples.

The examination included, but was not limited to, the following areas of the Company's operation:

- Company Operations and
- Claims

COMPANY OPERATIONS

Company History

The Standard Fire Insurance Company was incorporated on July 6, 1905 and commenced business on March 26, 1910 under the laws of Connecticut. The Company is wholly owned by Travelers Insurance Group Holdings Inc., a wholly-owned subsidiary of Travelers Property Casualty Corp.

Travelers Property Casualty Corp., a direct, wholly-owned subsidiary of The St. Paul Travelers Companies, Inc., is a property-casualty insurance holding company engaged, through its subsidiaries, in two business segments: Commercial Lines and Personal Lines.

On April 2, 1996, Travelers Property Casualty Corp. purchased the property and casualty business of The Aetna Casualty and Surety Company and its property-casualty affiliates. On April 1, 2004, Travelers Property Casualty Corp. merged with The St. Paul Companies and is now known as The St. Paul Travelers Companies, Inc.

Hurricane Claims Handling

Immediately after Hurricane Katrina made landfall on August 29, 2005, the Company began issuing Additional Living Expense (ALE) advances to customers submitting claims in need in areas of devastation. Unable to enter the affected areas, the Company leased 5,000 square feet of space in Houston to add additional staff to service customers in Louisiana. Five catastrophe vans manned by Company staff deployed to the devastated areas to take new notices of loss, process claims, and provide advances to customers in need. The staffing in August consisted of 25 unit managers and 550 claim handlers.

In September, two of the five catastrophe (CAT) vans were redeployed more closely to the heavily affected areas. Teams were established in other claim centers to assist with initial contacts and to manage lower value claims. Customer inquiry units were established in the Houston and Orlando CAT offices. An additional 5,500 square feet of space was leased to the Houston CAT office. When the New Orleans area became accessible, the CAT team moved in and established a satellite claim operation. The staff was increased in September to 950 total personnel.

In October, an additional 7,000 square feet was leased in the Houston CAT office. Total staff was increased to 1,100.

In January 2006, a temporary claim location was established in downtown New Orleans and a dedicated mediation claim unit was established to respond to requests for mediation. In March 2006, a second claim center was established in the New Orleans area.

CLAIMS REVIEW

The Company provided a file of all claims for Hurricanes Katrina and Rita from August 28, 2005 through April 30, 2006. The file was analyzed using ACL and the following categories and amounts were found:

<u>Type of Claim</u>	<u>No. of Claim Payments</u>	<u>Paid Amount</u>
Closed with Payment	24,065	\$116,224,933
Open	1,895	\$17,850,377
Closed without Payment	39	0
Flood Damage*	<u>25</u>	<u>\$68,650</u>
Total	26,024	\$134,143,960

* It should be noted that the above "Flood Damage Claims" are not actually flood claims but are denied claims based on the fact that the damage is due to flood which is not a covered peril.

The following table shows the time elapsed to process and pay the claims from the date received:

Homeowner's Claims

36% were paid within 30 days
15% were paid within 60 days
15% were paid within 90 days
15% were paid within 120 days
8% were paid within 150 days
5% were paid within 180 days
6% were paid after 180 days

The Company provided the following information concerning mediated and litigated CAT claims:

Number of claims that went to mediation	99
Number of claims that went to litigation	0
Number of claims where mediation was requested by the policyholder	99
Number of claims that were settled in mediation	81
Number of claims awaiting mediation as of April 30, 2006	117

Number of claims awaiting mediation as of July 31, 2006	45
Number of claims awaiting litigation as of April 30, 2006	2
Number of claims awaiting litigation as of July 31, 2006	6

The Company provided the following information as of August 31, 2006:

Number of claims incurred	10,640
Number of claims paid and closed	10,087
Number of claims closed without payment	43
Number of claims remaining open	510
Dollar amount of claims incurred	\$765,945,584
Dollar amount of claims paid and closed	\$611,031,005
Dollar amount of claims unpaid (reserve)	\$15,283,278

Closed Claims Review

A random sample of sixty (60) closed paid claims was selected from a listing provided by the Company for the period of August 28, 2005 through April 30, 2006. The files were reviewed to determine the time taken to pay the claims and to determine if the files contained adequate documentation. Also, the files were reviewed to determine if the adjustment of the claims was conducted in accordance with the statutes and regulations.

It was found that five (5) claims in the sample were not paid within the thirty (30) day time period as required by the statutes. This is not in compliance with **LRS 22:658 A(1)** which states:

"All insurers issuing any type of contract, other than those specified in R.S.22:656, R.S. 22:657, and Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, shall pay the amount of any claim due any insured within thirty days after receipt of satisfactory proofs of loss from the insured or any party in interest."

It is recommended that the Company implement procedures to ensure that all claims are paid in accordance with the above statute.

The Company provided a response that stated that they have reviewed the events that occurred after the hurricanes and have implemented enhancements to their workflow processes and claims systems. These enhancements include measures to reduce the

reliance on independent adjusters and updates to the Company's claim system that will allow quicker review of data from outside adjusters and independent adjusting firms, a reason code to be entered for those claims open for greater than thirty (30) days, and an update to enhance the receipt of completed claim estimates.

All of the claims in this sample were paid in an average of twelve (12) days after receipt of proof of loss from the adjuster.

It was found that the initiation of the loss adjustment for all of the claims in the sample was started within thirty (30) days after notification of the loss as required by the statutes. The initiation of the loss adjustment of the claims in the sample was started in an average of one (1) day after notification of the loss.

Open Claims Review

A random sample of sixty (60) open paid claims was selected from a listing provided by the Company for the period of August 28, 2005 through April 30, 2006. The files were reviewed to determine the time it took to pay the claims and to determine if the files contained adequate documentation. Also, the files were reviewed to determine if the adjustment of the claims was conducted in accordance with the statutes and regulations. It was noted that thirty-six (36) of these claims had been closed by the time of the review.

It was found that five (5) claims in the sample were not paid within the thirty (30) day time period as required by the statutes. This is not in compliance with **LRS 22:658 A(1)** which states:

"All insurers issuing any type of contract, other than those specified in R.S.22:656, R.S. 22:657, and Chapter 10 of Title 23 of the Louisiana Revised Statutes of 1950, shall pay the amount of any claim due any insured within thirty days after receipt of satisfactory proofs of loss from the insured or any party in interest."

It is recommended that the Company implement procedures to ensure that all claims are paid in accordance with the above statute.

The Company provided a response that stated that they have reviewed the events that occurred after the hurricanes and have implemented enhancements to their workflow processes and claims systems. These enhancements include measures to reduce the reliance on independent adjusters and updates to the Company's claim system that will allow quicker review of data from outside adjusters and independent adjusting firms, a reason code to be entered for those claims open for greater than thirty (30) days, and an update to enhance the receipt of completed claim estimates.

All of the claims in this sample were paid in an average of ten (10) days after receipt of proof of loss from the adjuster.

It was found that the initiation of the loss adjustment for all of the claims in the sample was started within thirty (30) days after notification of the loss as required by the statutes. The initiation of the loss adjustment of the claims in the sample was started in an average of one (1) day after notification of the loss.

Denied Claims Review

The claims file provided by the Company contained two groups of denied claims, thirty-nine (39) claims closed without payment and thirteen (13) flood damage claims. The number of claims in these groups was below sixty (60) each so selecting a sample was not necessary. All of the claims in these two groups were reviewed to determine the reason for closure or denial. The following tables show the reasons for the closure or denial of the claims in these two groups:

Closed Without Payment

<u>Reason for Closure or Denial</u>	<u>Number of Claims</u>
Wind loss less than deductible	16
Flood loss denied, wind loss less than deductible	8
Duplicate claims	6
Theft claims without proof of loss	4
Flood loss only	2
Policy not in effect (boat)	1
Paid claim (not a denied claim)	1
Pre-existing damage	<u>1</u>
Total	39

Flood Damage Claims

<u>Reason for Closure or Denial</u>	<u>Number of Claims</u>
Wind loss less than deductible, ALE paid	9
Flood loss denied, wind loss less than deductible and ALE paid	2
Policy cancelled by insured before loss	1
No damage, ALE paid	<u>1</u>
Total	13

It should be noted that the above "Flood Damage Claims" are not actually flood claims but are denied claims based on the fact that the damage is due to flood which is not a covered peril. This review was completed without any exceptions.

Additional Living Expense

The Company provided Additional Living Expense (ALE) to any insured who had evacuated from their home from the time of evacuation until the first inspection was made. In most cases, an initial payment of \$2,000 was issued as soon as the insured notified the Company that they had evacuated. Then additional ALE payments were made if the insured could not return to their home. The ALE was calculated at \$1,000 per week. If, after the inspection was made, the cause of the damage was determined to

be flood (not a covered peril), then the ALE payments were stopped at that point but the Company allowed the insureds to keep the ALE payments that they had already received. There were no exceptions found in the handling of the ALE payments.

General Comments

Some of the claims files presented to the examiner were not complete as they did not contain estimates of the damages. In other cases, the files did not contain the payment register or the diary notes. The Company was able to find this information when it was requested by the examiner. When exceptions were issued to the Company, they responded by providing some additional information that had not been provided in the original claim files. It appears that there was information available as scanned documents in the computer systems or available on other websites that had not been printed out for the claims files.

When the examiner returned to New Orleans on October 18, 2006 to further review the exceptions, the files did not contain information to verify the dates listed in the Company's response. After discussing this with the Company, they provided information from xactware.com which is the estimating system vendor. The reports are called Xactanalysis and show detailed transactions between the Company and the Independent Adjuster (IA) such as uploading of estimates, return of estimates, and review and approval dates. The file notes do not document all of the events which occur. More detail is found on the website of the estimating vendor and the website of the IA (Worley).

The Company provided the following response to a request to explain the missing information in the files:

"It was necessary to gather and reproduce much of the documentation that is stored electronically for the 185 files, which were part of the selected sample for this examination, within a very short time period. In doing so some of the information was not initially retrieved and printed. This information was available and retrieved as it was noted during the review."

"We also have access to property claim data in Xactanalysis which is a window into XactNet, a vendor website used to track and view our property claim information. Xactanalysis data is not part of the claim file. We can go to the website to validate some dates if they are not found in the claim file but it is not part of the file."

The Company's response satisfied the Department's concerns and seemed reasonable under the circumstances.

COMMENTS AND RECOMMENDATIONS

CLAIMS REVIEW

It was found that five (5) claims in the closed claims sample were not paid within the thirty (30) day time period as required by the statutes. This is not in compliance with **LRS 22:658 A(1)**. It is recommended that the Company implement procedures to ensure that all claims are paid in accordance with the above statute.

It was found that five (5) claims in the open claims sample were not paid within the thirty (30) day time period as required by the statutes. This is not in compliance with **LRS 22:658 A(1)**. It is recommended that the Company implement procedures to ensure that all claims are paid in accordance with the above statute.

CONCLUSION

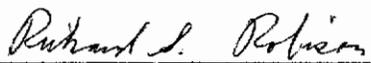
I, Richard S. Robison, do solemnly swear and affirm that I am an examiner for the Commissioner of Insurance of the State of Louisiana and that, as such, I was assigned to conduct an examination of the market conduct activities of

**THE STANDARD FIRE INSURANCE COMPANY
HARTFORD, CONNECTICUT**

That I made such examination and the above and foregoing is a true and correct copy of my report of such company and the same is true and correct to the best of my knowledge, information and belief.

Boyd A. Higgins, Contract Market Conduct Examiner with the Louisiana Department of Insurance also participated in the examination and joins the undersigned in acknowledging the courteous cooperation of the Company's Officers and Employees.

Respectfully submitted,


Richard S. Robison
Louisiana Department of Insurance

APPENDIX A

Summary of Claims by Louisiana Parish

<u>Parish</u>	<u>Claim Count</u>	<u>Claim Amount</u>
ORLEANS	3,172	49,142,828
JEFFERSON	3,473	42,361,010
ST. TAMMANY	786	12,950,847
ST. BERNARD	642	7,744,289
WASHINGTON	319	4,873,638
CALCASIEU	324	4,677,875
EAST BATON ROUGE	435	2,749,384
TANGIPAHOA	153	1,196,403
LAFOURCHE	171	1,032,910
PLAQUEMINES	70	842,818
ST. CHARLES	103	797,515
TERREBONNE	98	769,083
ST. JOHN THE BAPT	91	637,914
LIVINGSTON	98	569,372
JEFFERSON DAVIS	59	491,946
ASSUMPTION	63	408,447
LAFAYETTE	50	264,766
VERMILION	56	258,134
BEAUREGARD	23	255,582
RAPIDES	49	240,919
IBERIA	39	191,790
ST. JAMES	21	184,642
VERNON	25	179,180
ACADIA	28	171,272
CADDO	32	129,125
ST. LANDRY	18	106,795
ALLEN	9	100,824
ASCENSION	21	99,891
ST. MARY	19	98,485
IBERVILLE	12	69,064
EAST FELICIANA	8	68,821
NATCHITOCHES	10	61,634
SABINE	12	61,624
ST. HELENA	9	58,301
WEST BATON ROUGE	12	55,258
AVOUELLES	9	39,847
BOSSIER	14	37,508
GRANT	5	27,004
CONCORDIA	1	21,247
EVANGELINE	2	20,826

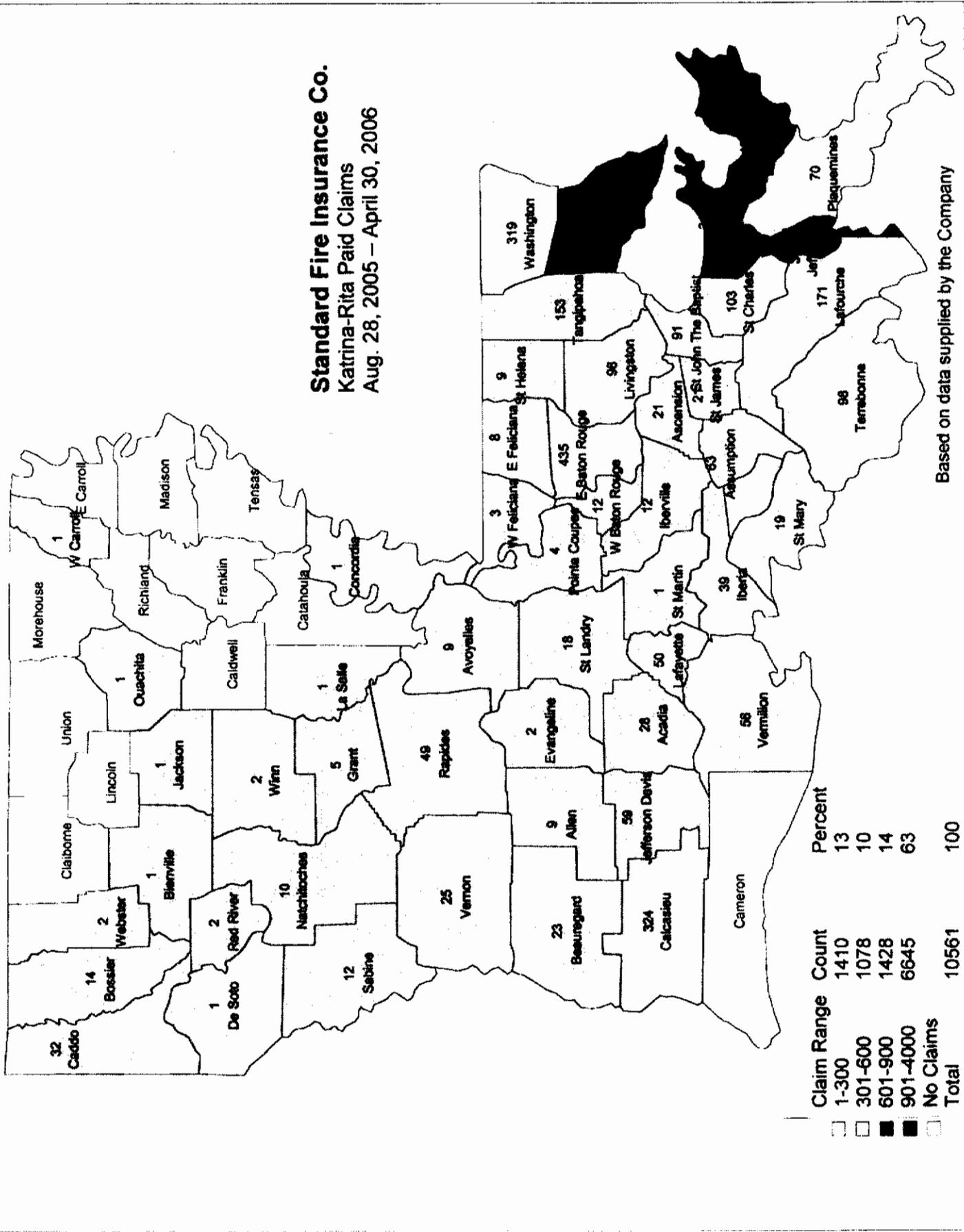
<u>Parish</u>	<u>Claim Count</u>	<u>Claim Amount</u>
POINTE COUPEE	4	17,339
WEST FELICIANA	3	16,598
RED RIVER	2	10,513
LA SALLE	1	8,192
ST. MARTIN	1	7,858
WINN	2	7,427
OUACHITA	1	7,122
WEBSTER	2	5,613
DE SOTO	1	5,268
WEST CARROLL	1	3,888
BIENVILLE	1	2,975
JACKSON	<u>1</u>	<u>2,349</u>
Total	10,561	134,143,960

Note: The above claim information was prepared based on data provided by The Standard Fire Insurance Company.

APPENDIX B

Map of Louisiana Highlighting Claims Reported by Parish

Standard Fire Insurance Co.
Katrina-Rita Paid Claims
Aug. 28, 2005 – April 30, 2006



Based on data supplied by the Company